BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

PREFILED TESTIMONY SUPPORTING SETTLEMENT STIPULATION AND AGREEMENT ON REVENUE REQUIREMENT AND ALL OTHER ISSUES EXCEPT TACOMA LNG AND PSE’S GREEN DIRECT PROGRAM (NONCONFIDENTIAL) OF

LAUREN C. MCCLOY

ON BEHALF OF NW ENERGY COALITION, FRONT AND CENTERED, AND SIERRA CLUB

AUGUST 26, 2022
Prefiled Testimony in Support of Settlement Stipulation (Nonconfidential) of Lauren C. McCloy

NW ENERGY COALITION, FRONT AND CENTERED, AND SIERRA CLUB

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INTRODUCTION

Q. Please state your name, title, and business address.
A. My name is Lauren C. McCloy. I am Policy Director for the NW Energy Coalition. My business address is 811 1st Ave., Ste. 305, Seattle, WA 98104.

Q. Please describe your background and experience.
A. As Policy Director for NW Energy Coalition, I support and guide the Coalition’s policy work in Washington, as well as Oregon, Idaho, and Montana, and also our work on regional and federal issues, including regional planning, markets, and federal infrastructure funding. Previously, I worked as Senior Policy Advisor to Governor Jay Inslee, where I led and managed a broad range of issues in support of the Governor’s energy priorities, including the Clean Energy Transformation Act, Climate Commitment Act, Environmental Justice issues, and elements of the state’s response to the COVID-19 pandemic. Prior to serving in that role, I was the Legislative Director for the Washington Utilities and Transportation Commission (“UTC” or “Commission”), where I served as the Commission’s liaison to the state Legislature and the Governor’s office, coordinated the UTC’s legislative activities, and advised Commissioners on energy policy and legislative issues. Before joining the UTC’s policy staff, I worked as a Compliance Investigator in the UTC’s Consumer Protection Division. My background and first-hand experience are the basis for my expertise and qualifications to testify as an expert on the issues raised in my testimony.

I completed Utility Regulation 101 training with the National Regulatory Research Institute in 2015 and Rate Spread and Rate Design training in 2016. I have a B.A. from the University of North Carolina at Chapel Hill and an M.S. in International
Development from Tulane University Law School. My CV is included in this docket as Exh. LCM-2.

Q. **Have you provided testimony before the Washington Utilities and Transportation Commission before?**

A. I provided response testimony in this proceeding on July 28, 2022.

Q. **On whose behalf are you appearing in this proceeding?**

A. I am testifying on behalf of NW Energy Coalition (“NWEC”), Front and Centered, and Sierra Club (collectively referred to in this testimony as the “Joint Environmental Advocates”).

Q. **What is the scope of your testimony?**

A. The purpose of this testimony is to recommend Commission approval of the Partial Multiparty Settlement and Stipulation (“Multiparty Settlement” or “Settlement”) in Puget Sound Energy’s (“PSE” or “the Company”) general rate case. This testimony addresses why, in the Joint Environmental Advocates’ view, the provisions of the Settlement are in the public interest and in the interest of a clean, affordable, and equitable energy system in Washington. Testimony from Gloria D. Smith (Exh. GDS-1T) discusses how the Settlement addresses gas system decarbonization and targeted electrification. My testimony addresses: CETA issues, Performance-Based Regulation, Colstrip, Demand Response, Distribution System Planning, Electric Vehicle Supply Equipment payment methods, Low-income Issues, Climate Commitment Act issues, and the Tacoma LNG Settlement. I understand that other parties will submit testimony addressing other aspects of the Settlement.
ANALYSIS

1. CETA Issues

Q. How does the Settlement address JEA concerns regarding PSE’s CETA costs?

A. Since the Clean Energy Transformation Act (CETA) did not drive the Company’s rate request in this case, the Settlement clarifies how PSE intends to recover the costs of CETA implementation, including the costs of resources in its Clean Energy Implementation Plan (CEIP). The Settlement also includes an agreement among the Settling Parties that there will be no determination regarding which costs may be included in the projected incremental cost of compliance with CETA in this docket. The Settling Parties agree that any questions surrounding the projected incremental cost of compliance will be addressed in the ongoing CEIP proceeding in Docket UE-210795, per WAC 480-100-660(4).

Q. How will CETA costs be recovered during the MYRP?

A. Costs associated with PSE’s compliance with CETA will be recovered via two mechanisms during the MYRP. First, any new and updated resources (including transmission contracts) will be included in the 2023 or 2024 Power Cost update, as described in Part D of the Settlement Stipulation. Any new resources included in the January 1, 2023 or January 1, 2024 baseline update will undergo a prudency review in the annual PCA Compliance Filing. Second, PSE will develop a separate tracking mechanism and tariff for costs included in its approved CEIP in Docket UE-210795 that are not included in Power Costs and are appropriate for recovery during the MYRP. Such costs may include but are not necessarily limited to distributed energy resource (“DER”) program costs, O&M expense, and capital expense for projects that enable CEIP
implementation. The Settling Parties agree to work collaboratively with PSE in
developing this tracker by April 1, 2023. All CEIP investments recovered through this
separate tracking mechanism are subject to review, including but not limited to an
examination of prudence.

Q. Does this resolve the JEA issues as it relates to CETA costs and implementation
issues in the MYRP?

A. Ultimately, we do not believe PSE properly aligned the filing of its MYRP with its CEIP,
as envisioned by SB 5295. This failure has created many procedural challenges,
complicating our involvement in this proceeding and docket UE-210795 due to
overlapping issues, and creating challenges for transparency and coordination. In the
future, the JEA strongly prefer CETA costs to be included in base rates, and for the CEIP
to be approved before a rate increase is requested. However, we support the creation of a
tracker for the limited purpose of providing a mechanism for CETA cost recovery during
this MYRP. The tracker will expire upon the conclusion of PSE’s next general rate case,
or other date agreed to by the Settling Parties. This proposal is non-precedential, and
inclusion of costs in the tracker does not qualify them as incremental costs for the
purpose of WAC 480-100-660(4). Further, PSE agrees to include costs associated with its
2025 CEIP as part of base rates or the associated tariff schedules implementing PSE’s
MYRP (i.e., Schedules 141N and 141R) in its next general rate case.

Q. Please discuss whether the Settlement Stipulation’s capital planning provisions
advance CETA’s equity mandate, in your opinion.

A. As I noted in my responsive testimony filed in this docket:
Successful implementation of CETA’s equity mandate requires a paradigm shift, such that PSE centers equity in every aspect of its company culture. Ultimately, equity must be considered in all of PSE’s planning and business cases, and in every filing reviewed by the UTC. This may seem like a daunting task, but it is essential that PSE set goals and work toward this end.\(^1\)

The Settlement Stipulation’s provisions on capital planning take an important step toward this paradigm shift, by requiring PSE’s Board and senior management to develop an equity lens and apply it to major capital planning decisions and Corporate Spending Authorizations.\(^2\) While PSE will need to continue to work to develop methods to center equity in other Company decisions and practices, the Stipulation’s requirements that PSE develop an equity lens for capital planning and corporate spending are a critical step toward the goal that PSE consider equity in all of its planning and business cases, and in every filing reviewed by the UTC.

Q. Please discuss whether the Settlement Stipulation’s provisions regarding a distributional equity analysis advance CETA’s equity mandate, in your opinion.

A. The Settlement Stipulation requires PSE to conduct a pilot distributional equity analysis on the 80MW of Distributed Energy Resources (DERs) PSE plans to acquire pursuant to its CEIP (or an alternative program, if the 80MW of DER is not included in the approved CEIP).\(^3\) The Stipulation also requires PSE to participate in a Commission staff-led process to refine the methods for distributional equity analyses. Both of these provisions advance CETA’s equity mandate, in my opinion.

First, the pilot analysis of PSE’s proposed DER portfolio will help to establish

\(^1\) UE-220066-67, LCM-1T at 26.
\(^2\) Settlement Stipulation at B, p. 11.
\(^3\) Settlement Stipulation at M.
baseline data on distributional equity. While all of PSE’s decisions and practices have
equity implications and customer impacts, PSE’s implementation of its DER portfolio
should provide immediate benefits and reduction of burdens to participating customers
and communities. For example, PSE has proposed to develop community solar projects in
its CEIP. A distributional equity analysis will help inform program design to ensure that
the benefits of community solar projects are equitably distributed, and designed to reduce
energy burdens, enhance community resilience, and increase self-governance and
autonomy in named communities. PSE’s DER programs, implemented well, should
improve the wellbeing of participating communities while generating clear, qualitative
information on where, how, and why community ownership of renewable generation
facilitates a more equitable transition.

Developing baseline data on the distribution of benefits and reduced burdens
resulting from PSE’s implementation of its DER portfolio is a critical component of
ensuring that these benefits and reduced burdens are equitably distributed to highly
impacted communities and vulnerable populations. PSE will need to use the results of
this distributional equity analysis to refine its DER portfolio and program implementation
to address any inequities this analysis reveals. In short, a more complete understanding of
distributional equity is a necessary precursor to making informed changes that increase
distributional equity.

Second, refining the methods for distributional equity analysis via a facilitated,
Commission staff-led process will also advance CETA’s equity mandate. Because PSE
has not routinely conducted distributional equity analyses of its DER portfolio or other
programs, PSE has not yet refined the methods it will use for this analysis. PSE must
examine the methods by which it conducts these analyses to ensure that they are as accurate and complete as possible, relying on experiences from the distributional equity pilot project and input from stakeholders and communities. The Commission-staff led process also offers a key opportunity for PSE to work alongside other investor-owned utilities to develop strong standards and best practices across companies for conducting distributional equity analysis, and using the results to shape policy and programs.

2. Performance-Based Regulation

Q. Does the Settlement address the JEA issues as it relates to performance-based regulation?

A. Yes, the Settlement addresses many of our issues regarding performance-based regulation.

Q. Can you detail which aspects of the Settlement address your issues regarding performance-based regulation?

A. Yes. First, the Settlement includes a performance incentive mechanism (“PIM”) for demand response (“DR”), with a target of 40 MW. The reward threshold to the Company would activate at 105% of the DR target, with a second reward threshold at 115% of the DR target, and an overall cap on the reward of $1 million over the course of the two-year rate plan, and the PIM would not extend past the end of rate year two, unless otherwise ordered by the Commission. The reward is based on a percentage of DR program costs. While this DR PIM is different than what the Joint Environmental Advocates suggested in the testimony of Amy E. Wheeless (Exh. AEW-1T), I think, as part of a comprehensive settlement agreement, that the proposed DR PIM in the Settlement is a reasonable compromise. This PIM will provide an incentive to the Company to pursue
demand response programming, which is a new program area for the Company.

However, the reward will only be provided if the Company exceeds 40 MW in the two-year rate plan, a significant acceleration of the Company’s plans for DR. This PIM will also be informative to the multi-year generic proceeding on alternatives to cost of service ratemaking, Docket No. 210590. As outlined in the workplan for this docket, the Commission and stakeholders will be reviewing PIMs during 2024, which would be rate year two of this MYRP. That discussion could be better informed by an in-progress PIM in a newer program area for regulated energy utilities.

Second, the Settlement includes additional performance metrics that the Company will report on, in addition to the scorecard modifications described by Witness Mark N. Lowry. Metrics are specific, quantifiable measures that help assess the utility’s performance in achieving desired outcomes. A comprehensive scorecard of metrics can help customers and stakeholders understand the Company’s performance in a variety of areas, including achieving a resilient, reliable, and customer-focused grid; environmental improvements; customer affordability; and advancing equity in utility operations. In turn, understanding the Company’s performance across a more comprehensive set of metrics should enable the Company and stakeholders to advocate for new policies and programs to improve performance in specific areas. We support the proposed metrics in the Settlement, as they directly address regulatory outcomes that we wish to advance, and we look forward to working with the Company, the UTC, and other stakeholders to showcase this information in an easily accessible manner.

Third, this Settlement proposes a two-year rate plan, versus the three-year rate plan originally proposed by the Company. Ideally, the electric utilities’ multiyear rate
plans should align with the CEIPs to provide alignment and transparency for CETA implementation. However, since PSE’s CEIP is yet to be considered by the Commission, there is too much uncertainty to justify a three-year rate plan for the Company. Further, as detailed in the testimony of Ronald J. Binz (Exh. RJB-1T), we do not think that the proposed multiyear rate plan sufficiently incorporates enough components of performance-based regulation, and thus its term should be more limited than three years. A two-year rate plan is a reasonable compromise within the bounds of a comprehensive settlement agreement.

Fourth, this Settlement proposes to accept the decoupling mechanism changes detailed by PSE Witness Birud Jhaveri (Exh. BDJ-1T). Decoupling is and will remain an important tool to address the disincentive to invest in conservation and energy efficiency.

Q. Are there issues regarding performance-based regulation that have not been addressed by this settlement?

A. Yes. While the Settlement includes the provisions I detailed, it is not, in our view, a true performance-based regulation proposal, as further described by Ronald J. Binz (RJB-1T). However, we plan to continue to advocate for these concepts in the generic proceeding regarding alternatives to cost of service regulation (Docket No. U-210590) to help provide more guidance to PSE and other regulated energy utilities on the development of future multiyear rate plans.

3. Colstrip

Q. Does the Settlement resolve the JEA issues as it relates to PSE’s Colstrip investments?
A. The Settlement resolves our issues in part and defers our issues in part. The JEA believe that any expenditures for capital additions that extend the life of the Colstrip plant should be disallowed. The Settlement specifically excludes from customer rates PSE’s share of expenditures in the Colstrip Dry Ash Waste Disposal Facility. We support this term. All other proposed preliminary expenditures included in PSE’s initial filing are removed from base rates and are subject to review, including but not limited to an examination of prudence, in PSE’s annual Schedule 141-C tariff filing.

The JEA believe that it would be reasonable for the Commission to preemptively disallow the preliminary budget amounts for a number of life-extending capital additions at Colstrip during the Multi-Year Rate Plan. However, as part of a comprehensive settlement agreement, we support the removal of these costs from base rates for separate treatment through the tracker. Costs amortized after 2025 would not be recovered in rates. The JEA retain all rights to challenge Colstrip costs when PSE files tariff revisions for the tracker. Under CETA, PSE must remove all coal-fired power from customer rates by the end of 2025. This means that planned expenditures discussed by PSE in this proceeding will no longer be used and useful by the end of 2025. Furthermore, there is no guarantee—and indeed, it seems unlikely—that Colstrip will be operational in 2024. Continued operation of Colstrip in 2024 would likely be imprudent, unreasonable, and harmful to PSE’s customers. Several proposed projects for 2024-2025 are meant to extend the life of the plant and are not associated with decommissioning and remediation.

NWEC, Sierra Club, and other stakeholders have previously asked the Commission to act preemptively to protect customers from sinking more money into the
continued operation of this plant. Although the Commission has so far declined to do so, it is not fair to customers to keep kicking this can down the road. Unfortunately, the Settlement does not provide necessary certainty to the Colstrip owners, or protect Washington customers from further entanglement in complex legal fights between the Colstrip owners, as would be accomplished by preemptive disallowance. In our view, the policy, market conditions, and common-sense weigh in favor of plant closure. However, the Settlement’s treatment of Colstrip costs is in the public interest because it is consistent with the intent of CETA, and it will allow JEA and other parties to recommend disallowance of any life-extending investments at Colstrip in a limited-issue filing in the future.

4. Demand Response

Q. Does the Settlement address the JEA concerns regarding demand response?

A. Yes. The Settlement more than doubles PSE’s average annual demand response acquisition commitment. In its initial case, PSE committed to acquire 23.7 MW of demand response over a four-year period (2022-2025), as proposed in its CEIP. Since PSE has yet to acquire any demand response, the average annual target was approximately 8 MW per year. The Settlement includes a commitment to acquire 40 MW of demand response during the two-year MYRP (2023-2024). This is equivalent to 20 MW per year, or two-and-a-half times the target proposed in PSE’s initial case. This term

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4 See Docket UE-210241: Request to Initiate Investigation on behalf of NGOs.
does not replace the requirement to adopt a DR target in the CEIP, which must also include 2025.

Q. Has PSE met its obligation to “pursue all cost-effective demand response,” as required by RCW 19.405.040(6)(a)?

A. The JEA take no position on whether PSE has met its obligation to pursue all cost-effective demand response, as required by the statute. The Settling Parties reserve the right to support a higher target in the CEIP docket.

5. Distribution System Planning

Q. Please describe the Settlement’s terms concerning Distribution System Planning.

A. The Settlement includes language requiring PSE to conduct distribution system planning in coordination with its CEIP process, as part of an integrated system planning approach for distribution system investments. The Settlement clarifies that a goal of distribution system planning is identifying ways that connected customer-side resources can provide system value for all customers and achieve an equitable distribution of benefits and burdens to vulnerable populations and highly impacted communities. The settlement further requires PSE to solicit stakeholder input to help identify options and priorities for community-based resources during the MYRP, and provide equitable treatment of measures that can enhance distribution carrying capacity, including those not owned or controlled by PSE.

Q. Does this address the JEA concerns with PSE’s grid modernization and DER enablement investments?

A. Yes. Our concerns with PSE’s grid modernization and DER enablement investments are described in the testimony of Josh B. Keeling (Exh. JBK-1T), who recommended that a
robust distribution system plan is necessary to justify PSE’s large capital expenditures to support DERs. (Id. at 12-17, 28).

**Q. How is this different than what PSE already does?**

**A.** “Distribution system planning” is an evolution of the core function of “delivery system planning,” and not intended to displace it, but rather to build on it and provide a new set of integrated planning tools, methods, and broader stakeholder participation.

First, rapid innovation of technology, policy, and markets is giving customers a more active role in managing their own energy use, as well as providing services back to the grid. This requires a more comprehensive assessment of system capability and operations, connecting various planning processes and encouraging broader participation by customers and other stakeholders.

Second, more diverse and often interconnected third-party providers and networks are augmenting the distribution network and customer equipment behind the meter. This requires changes to planning tools and data resources. It also has implications for the interconnected nature of the distribution system and supply and demand-side resources.

Third, distribution system planning would provide the engineering and analytical backing to support customer and utility DER investments based on system benefits – i.e., avoided transmission and distribution system investments. This element is missing from PSE’s CEIP, which takes a budget-driven approach to designing a DER program, and lacks an integrated approach to planning for demand-side resources.

**Q. How do the terms addressing Delivery and Distribution System Planning promote equity?**
A. These terms promote distributional, structural, and procedural equity. PSE is required to develop new benefits and costs (with associated weights) related to equity for use in the optimization step in its replacement software for its investment decision optimization tool (“iDOT”). New benefits and costs should include, but are not limited to, societal impacts, non-energy benefits and burdens, and the Social Cost of Greenhouse Gases, as well as any other benefits and costs that come from engagement with PSE’s advisory groups.

PSE must collaborate with its Equity Advisory Group, Integrated Resource Plan (“IRP”) Advisory Group, and its customers, particularly in Named Communities, at least at the “Collaboration” level on the International Association for Public Participation Spectrum.

6. EVSE Payment Methods

Q. **Does the Settlement address JEA concerns regarding publicly accessible electric vehicle supply equipment (EVSE) payment methods?**

A. Yes. The Settlement requires PSE to make minimum payment methods available at all publicly available electric vehicle supply equipment, owned or supported by the utility, to increase access to all customers. Minimum payment methods should be consistent with California’s EVSE Standards, § 2360.2, titled “Payment Method Requirements for Electric Vehicle Supply Equipment.” California’s minimum payment method standards require three minimum payment methods:

- A credit card reader that accepts an Europay, Mastercard, and Visa (“EMV”) chip at the EVSE unit or a kiosk
- A mobile payment device on the EVSE unit or kiosk
- A toll-free number on each EVSE unit or kiosk
The inclusion of all three payment methods is essential because it is necessary to facilitate charging sessions for unbanked, underbanked, or low-moderate income drivers, as required by RCW 19.94.565.5

Q. **Why is this term in the public interest?**

A. As discussed in my response testimony (Exh. LCM-1T), credit card readers are one way to make it easier for consumers to use this equipment, and to expand access to these services to vulnerable populations, which is critical to meeting our climate goals and equity goals. PSE has an obligation to serve electric customers. In the case of publicly accessible EVSE, this means that the Company’s infrastructure must be able to serve as many customers as possible in a nondiscriminatory and equitable manner. Nonparticipating customers also benefit from high utilization of utility-owned EVSE, which is enabled by access to multiple payment methods. Accessibility, equity, and utilization are all appropriate factors to consider when evaluating the prudence of PSE’s investments in publicly accessible charging infrastructure, and ensuring that these projects provide the maximum benefits to customers.

7. **Low-Income Issues**

Q. **Do the JEA support the Settlement as it pertains to Low-income Issues?**

A. Yes, we support the Settlement terms regarding low-income customer issues. The Settlement includes provisions regarding the establishment of a bill discount rate, as

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5 This section states: “At a minimum, the rules [adopted by WSDA] must include . . . means for facilitating charging sessions for consumers who are unbanked, underbanked, or low-moderate income, such as accepting prepaid cards through a card reader device. Methods established in (e) of this subsection may be used to meet this requirement if they adequately facilitate charging sessions for these consumers.”
required by RCW 80.28.068(1); the development of an arrearage management program;
and an increase to the Home Energy Lifeline Program (“HELP”) funding, consistent with
RCW 80.28.425(2). The combination of these provisions will help customers reduce
energy burden and retain access to essential utility service. In addition, the Settlement
includes an extension of the Company’s commitment to maintain annual base funding
levels for weatherization, which had been set to expire at the end of 2022, as well as an
agreement for the Company to make a “good faith effort” to increase weatherization
measure incentive amounts in 2022. Together, these provisions will help ensure the
continued success of the low-income weatherization program.

8. Climate Commitment Act Issues

Q. How does the Settlement address the JEA concerns regarding the Climate
Commitment Act (CCA)?

A. For gas service, the settlement terms concerning gas decarbonization are addressed in the
testimony of Gloria D. Smith (Exh. GDS-1T). For electricity service, the Settlement
includes a requirement that PSE update its power cost model to reflect impacts to
dispatch logic related to CCA compliance. It is essential that the price effect of the CCA
be integrated into planning, power costs, and real-time operations, and be reflected in
market dispatch. This update will happen in 2023, for rates to become effective on
January 1, 2024. While there are many more CCA implementation issues yet to resolve in
other arenas, this commitment provides a process for the Commission, stakeholders, and
the public to examine the impact of CCA on market dispatch of PSE’s generating
resources, and the impacts on customer rates.
9. Tacoma LNG Settlement

Q. Do the JEA support the removal of Tacoma LNG from this Settlement?

A. The JEA did not file testimony in this proceeding regarding the Tacoma LNG project.

The JEA take no position on the prudence of the project in this proceeding. However, the JEA support of the Partial Multi-Party Settlement Stipulation is contingent on the removal of the Facility from the agreement for separate consideration by the Commission.

CONCLUSION

Q. Please summarize your recommendations.

A. I recommend that the Commission approve the Settlement.

Q. Does this conclude your testimony?

A. Yes, it does.